

## **The Unnecessary Costs of a Government Shutdown**

Government funding runs out on April 28<sup>th</sup>. Without an agreement to fund the government by then, the federal government will shut down, disrupting economic growth, increasing uncertainty for businesses and people who rely on public services or are awaiting a tax refund, and potentially triggering job losses across the economy—just as the nation experienced during the October 2013 shutdown.

A shutdown would further add to the growing uncertainty among businesses, investors, Americans and people in countries around the globe about whether the Trump Administration and Republicans in Congress are capable of effectively governing the country. If the Republican Congress cannot even keep the government open, how can it rebuild our infrastructure, reform taxes, or achieve a host of other legislative priorities?

Fiscal policy uncertainty alone is estimated to have cost the economy nearly 1 million jobs from late 2009 to 2013.<sup>1</sup>

With Republicans' failure on the long-promised ACA repeal and President Trump's reversals on key policy positions from NATO's role in global security to whether China is manipulating its currency, America is rapidly losing the policy certainty critical to our economic and political leadership in the world, with significant costs.<sup>2</sup>

Here's a quick primer highlighting several costs of a government shutdown:

**Disrupting economic growth** – Shutting down the government could negatively impact gross domestic product (GDP) growth. According to the Bureau of Economic Analysis, real GDP growth in the fourth quarter of 2013 was about 0.3 percentage point lower (\$12 billion) on an annualized basis than it would have been, just as a result of lost output from federal employees not being able to work during the 2013 shutdown.<sup>3</sup> The overall disruption to economic growth was likely larger. Standard and Poor's estimated that the 2013 shutdown cut 0.6 percent from annualized fourth quarter 2013 GDP growth, a loss of \$24 billion from the economy.<sup>4</sup>

**Negative impact on jobs** – If the government shuts down, hundreds of thousands of federal workers will not be able to work. At the peak of the 2013 shutdown, 850,000 federal workers per day were furloughed.<sup>5</sup> Another few hundred thousand contractors, many of them defense contractors, could not work.<sup>6</sup> Disruptions to normal government functioning pose serious costs on private sector activity and employment. Private-sector lending to both individuals and small businesses would be disrupted as a result of the IRS' inability to validate information needed to process loans. While federal employees received back pay in 2013, the delay in their paychecks as well as delays for those workers who were not furloughed constrained consumer spending.<sup>7</sup>

**Tax refunds delayed** – A two week shutdown could delay tax refunds for 2.5 million families, amounting to \$8 billion withheld from American taxpayers' pockets, according to estimates from the Center for American Progress. In the last shutdown, more than 90 percent of IRS workers were furloughed, resulting in the delay of \$2.2 billion in refunds to individuals and \$1.5 billion to businesses.<sup>8</sup> That shutdown occurred in October, far from April's tax day, which is reason to expect a considerably larger impact from a shutdown now.

**Harm to tens of millions of Americans who count on federal programs** – Tens of millions of Americans count on federal programs and would be harmed by a prolonged shutdown. For example, nearly 43 million Americans rely on the Supplemental Nutrition Assistance Program (SNAP) to feed themselves and their families.<sup>9</sup> More than 41 million retired workers count on their monthly Social Security checks along with another nearly 9 million disabled workers and 4 million widow(er)s.<sup>10</sup> Eight million women, infants and children get healthy and nutritious meals and health screenings through the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).<sup>11</sup>

**Risk to consumer confidence** – Consumer confidence is likely to fall should the government shut down. During the 2013 shutdown, consumer confidence fell to a 10-month low.<sup>12</sup> Since consumer spending accounts for about two-thirds of the U.S. economy, reductions in consumer confidence that lead to lower consumer spending can have a significant negative impact on economic growth.

**Closing of national parks** – National parks and monuments would close, disrupting people's plans to travel and visit them and reducing tourism and travel spending across the country. National parks lost about 700,000 daily visitors in the 2013 shutdown.<sup>13</sup> It is estimated that shutdown led to more than \$500 million in lost visitor spending nationwide, with the impact concentrated on those communities near the parks.<sup>14</sup>

**Cancer and other critical research would halt** – Medical research would stop. The key research agencies, including the National Science Foundation (NSF), the National Institutes of Health (NIH) and the Centers for Disease Control and Prevention (CDC), could see most of their employees furloughed. In 2013, 98 percent of NSF and nearly 75 percent of NIH employees were furloughed. Hundreds of patients were unable to enroll in NIH clinical trials.<sup>15</sup>

**Closure of war memorials** – Veterans who served their country could be prevented from visiting war memorials along with other members of the public. In 2013, the nation's war memorials in Washington, DC were closed during the shutdown, sparking protest by veterans and others.<sup>16</sup>

**Airport delays** – Furloughs of Transportation Security Administration (TSA) workers could lead to significant airport delays and travel cancellations, which is both frustrating to those affected and costly. In the 2013 shutdown, more than half of business travelers said they cancelled business trips according to one survey.<sup>17</sup>

- 
- <sup>1</sup> <http://www.macroadvisers.com/2013/10/the-cost-of-crisis-driven-fiscal-policy/>
  - <sup>2</sup> <http://www.cnn.com/2017/04/12/politics/trump-russia-china-nato-syria/>
  - <sup>3</sup> [https://www.bea.gov/newsreleases/national/gdp/2014/tech4q13\\_adv.htm](https://www.bea.gov/newsreleases/national/gdp/2014/tech4q13_adv.htm)
  - <sup>4</sup> <http://www.businessinsider.com/sp-cuts-us-growth-view-2013-10>
  - <sup>5</sup> <https://obamawhitehouse.archives.gov/blog/2013/11/07/impacts-and-costs-government-shutdown>
  - <sup>6</sup> <https://www.economy.com/mark-zandi/documents/2013-10-21-budget-battle-postmortem.pdf>
  - <sup>7</sup> <https://www.economy.com/mark-zandi/documents/2013-10-21-budget-battle-postmortem.pdf>
  - <sup>8</sup> <https://www.americanprogress.org/issues/economy/news/2017/04/11/430329/government-shutdown-delay-billions-dollars-tax-refunds/>
  - <sup>9</sup> <https://www.fns.usda.gov/sites/default/files/pd/29SNAPcurrPP.pdf>
  - <sup>10</sup> <https://www.ssa.gov/oact/progdata/icp.html>
  - <sup>11</sup> <https://www.fns.usda.gov/wic/frequently-asked-questions-about-wic#3>
  - <sup>12</sup> <https://www.bloomberg.com/news/articles/2013-10-25/consumer-sentiment-in-u-s-dropped-to-10-month-low-in-october>
  - <sup>13</sup> <http://abcnews.go.com/Politics/heres-happened-time-government-shut/story?id=26997023>
  - <sup>14</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/reports/impacts-and-costs-of-october-2013-federal-government-shutdown-report.pdf>
  - <sup>15</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/reports/impacts-and-costs-of-october-2013-federal-government-shutdown-report.pdf>
  - <sup>16</sup> <http://www.nbcwashington.com/news/local/Closure-of-War-Memorials-Continues-to-Cause-Conflict-226481851.html>
  - <sup>17</sup> [http://www.gbta.org/PressReleases/Pages/rls\\_101113.aspx](http://www.gbta.org/PressReleases/Pages/rls_101113.aspx)